

**WORK SESSION
OF THE BRIGHAM CITY COUNCIL
TO DISCUSS THE COST OF SERVICE FOR PUBLIC POWER
MARCH 18, 2010
5:40 P.M.**

PRESENT:	Dennis Fife Scott Ericson Ruth Jensen Tyler Vincent	Mayor Councilmember Councilmember Councilmember
ALSO PRESENT:	Tom Ammons Dave Burnett Jim Buchanan Mary Kate Christensen Blake Fønnesbeck Bruce Leonard Jason Roberts Paul Tittensor John Gunderson John Bott Larry Boyer	Energy Conservation Specialist Director of Public Power EMS Director City Recorder Public Work Director City Administrator Finance Director Chief of Police Public Utilities Advisory Board (PUAB) Chairman PUAB Member PUAB Member
EXCUSED:	Bob Marabella Bruce Christensen	Councilmember Councilmember

Mr. Leonard introduced Mr. Lowell Alt, who contracted with the City to prepare a Cost of Service and Rate Design for electricity.

Mr. Alt explained that a Cost of Service Study takes all the costs of the electric operations and generation, which for Brigham City is the cost of power from Rocky Mountain Power (RMP), transmission costs, distribution costs and customer related costs and allocating these costs to the different rate schedules. There are a number of steps to do this. The first is to try and assign a rate schedule and costs from the County records that are attributed solely to a certain class. The easiest is security area lights.

The big step is functionalization, which is arranging the cost into major functions; such as production, transmission and distribution.

The next step is classification, taking these costs and subdivide again to costs that are demand related, energy related and customer related. Demand related costs are costs that are driven by customers' kilowatt maximum demands. Energy related costs are those that are related to the volume of use. Customer related is prevalently related to the number of customers.

The last step is allocation, which is the apportionment of joint and common costs among two or more rate classes in accordance with each class's relative share of measurable cost-defining service characteristic, such as kilowatt hours or peak kilowatt demand. An example of a joint cost would be a substation, which is an investment and other operating expenses. Substations serve all rate schedules, so the cost for the substation has to be allocated between the rate schedules in a fair, cost basis way. This is done by what is called cost causation, which is basically that the costs should be borne by the cost causers. Cost-causative allocators help achieve fair cost apportionment and send correct price signals to consumers.

Mr. Alt indicated on a bar chart the percentage increase or decrease for each of Brigham City's rate schedule to bring it to cost of service. A 6.7% rate increase is needed to bring the residential rate up to cost of service. The general service needs a 3% decrease; general service industrial needs a 10.3% increase; high voltage general service needs a 13% decrease; aerial lights needs a 9.4% increase. Mr. Alt recommended the next time the City has an overall rate increase, that a greater than average increase be applied to the two schedules needing increases and something less than average, or even zero, to the schedules needing a decrease.

Rate design is the formulation of specific rate components that will, when multiplied by the related test year billing units, recover the revenue requirement for each rate schedule and meet other rate making objectives.

Rate design objectives include:

- ☐ Recovery of class revenue requirements - the amount of money needed to cover costs and a transfer if used
- ☐ Simple, understandable, acceptable
- ☐ Correct price signal - cost based
- ☐ Fair cost apportionment within class
- ☐ Rate stability (gradualism) - customers don't like a large percentage rate increase because their paycheck doesn't go up like that. It is more acceptable to have smaller, gradual rate increases.
- ☐ Revenue stability
- ☐ Non discriminatory
- ☐ Efficient use of resources

Brigham City buys the bulk of its power from RMP and Western Area Power Administration (WAPA). This represents approximately 65% of the City's operating expenses. About half of that comes from demand charges and the other half for energy charges. The cost to purchase power in the summer is more than when purchased during the winter. The demand cost during the summer is 11% higher than in the winter and the kilowatt hour energy cost is 8% higher.

Mr. Alt reviewed a bar chart that indicated the peak demands. The highest usage is during the summer. May, June, July, August and September are the months with the highest use. Not only is the purchase of power higher in the summer, more power is used.

Mr. Alt recommended the City consider separating the price for demand and energy into summer and winter rates. This would recognize the cost differences and would send more correct price signals to customers and would promote more equity. For example, if customers use more power in the winter and other customers use more power in the summer and an average yearly price is being charged, those using more power in the winter are subsidizing those who use most of their power in the summer. He recommended summer be defined as May through September, which is consistent with the City's demands and RMP's rates.

In order to get the average unit prices, Mr. Alt calculated the average dollars per kilowatt of monthly peak demand for each rate schedule and the average energy costs in cents per kilowatt hour and compared them to Brigham City's prices. He found that the demand costs are higher than what the City charges and the energy costs are lower. In addition, Brigham City has no customer charge like RMP has, but this is included in the energy prices. Mr. Alt recommended the City consider moving these prices closer to costs and add a monthly customer charge.

A customer charge is intended to collect direct customer costs, such as the meter, service drop, meter reading and billing. It helps to maintain equity within the rate schedule. Adding a customer charge will enable the City to better track rates over a kilowatt usage range.

Brigham City has declining block energy rates. Mr. Alt recommended rates not decline unless costs decline with increased usage. The reason a lot of utilities still have declining block rates is because the demand costs and customer costs are included in the first two blocks rather than in the tail block. The City's kilowatt rates are not declining. RMP and WAPA charge the City a flat cents per kwh for every kwh, no matter how much is used. He recommended pricing each rate closer to cost which promotes equity and tracks costs better.

Summary of Recommendations

- ☐ Seasonal rates (summer and winter)
- ☐ Customer Charges
- ☐ Increase demand charges
- ☐ Flatten energy rates
- ☐ Increase 100 watt security light rate
- ☐ Use cost of service results as a guide for next rate increase

Mr. Alt recommended several different rate proposals. One is to implement a customer charge of \$2.00 per month for residential and gradually increasing it and not go to a summer/winter rate yet. Another option is a 2% overall increase. The third option is an overall rate increase of 10%, including a \$4.00 customer charge and a slight differential in summer and energy rates. If there is another rate increase after that, he recommended not adding any more to the winter kw rate and put all the increase to the summer until there is a comparable differential between the two.

Mayor Fife said he would like to keep the rates the same, but create the correct schedule.

Mr. Bott stated that one of the challenges the Council has is educating the community about how much power the City gets from RMP. Most citizens think Brigham City is self contained. They do not realize that the City is purchasing energy from RMP and any increase from them has to be passed onto the citizens.

Mayor Fife said the Council previously recommended that the 2.2% increase from RMP not be passed onto the citizens. There will also be another 5% increase in June. He asked the PUAB to bring back a recommendation on these.

Mr. Gunderson recommended the City look into alternative sources of power, such as wind power. Mayor Fife stated that the City had a grant and a wind study was conducted. There is still money available and it will be used to look into solar. Mr. Leonard said UAMPS has purchased a wind energy farm south of Idaho Falls. They are projecting they will be able to sell power for \$70-\$80 per megawatt hour. He has a meeting with them next week. Initially the City was interested in participating, however, they are asking for up front costs. They have not completed all the engineering and environmental work yet. After that is completed, they will have a better idea of what their bonding costs will be. The City decided to wait and see what these costs will be.

Mr. Burnett expressed concern that the City is at the mercy of RMP. If they decided to increase rates to \$50-\$60 a megawatt hour the City's margin will decrease dramatically to the point that there is no longer a revenue source. He felt the City should look into alternative energy, even though it could be more costly.

Mayor Fife asked the PUAB to come up with a recommendation from the information provided by Mr. Alt.

Mr. Leonard said he and Mr. Burnett have been looking at a net metering system. This would allow the City to buy back energy if a customer puts in a solar panel system in their home.

The meeting adjourned at 6:40 p.m.